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Department of State

INCOMING TELEGRAM

NODIS REVIEW

- Oct A - Caption removed; transferred to O/FADRC
- Oct B - Transferred to O/FADRC with additional access controlled by S/S
- Oct C - Caption and custody retained by S/S

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Reviewed by Ellen Kelly Jr.

Date Aug 11 1982

PAGE 01
ACTION NODIS

REF ID: A4202 01 OF 07 034417

INFO ACT-01 ANS-88 1201 N

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N 030340Z JUN 81
FM AMEMBASSY BEIJING
TO SECRETARY WASHDC IMMEDIATE 3177

C O N F I D E N T I A L SECTION 01 OF 07 BEIJING 0200

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STAUTS

P.O. 190451 000-3 - 4/23/81 (ROY, J. STAPLETON) 00-4
TACSI: 0000
SUBJ: MATG-2MAN MEMCON

DEPT STATE 144449

MEMORANDUM REPEATED FOR YOUR ACTION BEIJING 4202. SENT ACTION
WASHDC JUNE 19,

QUINT

C O N F I D E N T I A L SECTION 01 OF 07 BEIJING 0200

NODIS

FOR ASSISTANT SECRETARY HOLDINGS

P.O. 190451 000-3, 6/10/81 (ROY, J. STAPLETON) 00-4
TACSI: 0000, (HAIR, ALEXANDER M., JR.) CM
SUBJECT: SECRETARY HAIR'S JUNE 19, 1981 MEETING WITH POC
PRINTED 7M40 ZTYANG

1. (C - ENTIRE TEXT)

DEPARTMENT OF STATE

IS/FPC/CDR TRS Date: 12/5

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☐ RELEASE ☐ DECLASSIFY
☒ EXCISE ☒ DECLASSIFY
☐ DENY IN PART
☐ DELETE Non-Responsive Info
 FOIA Exemptions 2
 PA Exemptions

MR Cases Only:
EO Citations

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TELEGRAM

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PAGE 02

051114 06202 01 OF 07 2344317

2. THE FOLLOWING MEMCON OF THE SECRETARY'S MEETING WITH PRC PREMIER ZHAO ZIYANG AT 3:15 P.M. ON THURSDAY, JUNE 14, 1981 REQUIRES CLEARANCE BY THE SECRETARY. FOLLOWING WHICH IT SHOULD BE TRANSMITTED TO WASHINGTON WITH APPROPRIATE DISTRIBUTION CONTROLS.

3. PARTICIPANTS IN THE MEETING FOR THE U.S. WERE THE SECRETARY, ASSISTANT SECRETARY HOLDRIDGE, CHARGE D'AFFAIRES BRY, GENERAL WALTERS, MESSRS. LILLEY, ANMACORT AND GOLDBERG, AND MR. CHANG. (INTERPRETER). FOR THE CHINESE SIDE: PREMIER ZHAO ZIYANG, VICE FOREIGN MINISTER ZHANG WEIJIN, DIRECTOR HAN XU, DEPUTY DIRECTOR ZHU ZIYUAN, DEPUTY DIRECTOR LI CHAOSHUI, DEPUTY DIRECTOR TANG LONGJIN, INTERPRETER YANG JICHU, AND THREE NOTETAKERS.

4. BEGIN TEXT:

WATG: PREMIER ZHAO, IT IS A PRIVILEGE TO MEET YOU IN THIS LOVELY PLACE.

ZHAU: IT IS CALLED THE PEOPLE VELVET PAVILION. WHEN PREMIER ZHAU ENLAI WAS WITH US, HE OFTEN MET FOREIGN GUESTS HERE. IN THE QING DYNASTY THIS WAS THE PLACE WHERE THE EMPEROR GAVE EXAMINATIONS TO SCHOLARS.

ZHANGWEIJIN: TO MILITARY OFFICERS.

WATG: I HOPE I WON'T HAVE THAT EXPERIENCE TODAY. I MIGHT GET A LOW GRADE.

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INCOMING
TELEGRAM

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PAGE 03 HFIJIM 24292 01 OF 07 2374717

THAO: YOU HAVE BEEN HERE SEVERAL DAYS, AND THE WEATHER HAS BEEN VERY HOT.

HAYG: IT IS FORTUNATE THAT WHILE THE WEATHER IS HOT, IT IS DRY, NOT DAMP.

THAO: IT IS WARMER THAN WASHINGTON?

HAYG: SLIGHTLY, BUT NOT AS HUMID. WE WERE IN HONG KONG TWO DAYS AGO, THAT WAS VERY HUMID.

THAO: ONE GOOD THING ABOUT HONG KONG IS THE FACT THAT THEY HAVE NO MOSQUITOES. WE HAVE THEM HERE IN GREAT NUMBERS.

HAYG: I DON'T ACTUALLY NOTICE THEM.

THAO: IT IS NOT LIKE CANTON HERE; THERE, MOSQUITO NETS ARE NEEDED.

THAO: DURING THIS MORNING, YOU MET WITH VICE CHAIRMAN PENG, THAT WAS A VERY IMPORTANT SESSION WHICH WAS THE CLIMAX OF YOUR VISIT. YOU ALSO MET YESTERDAY AND THE DAY BEFORE WITH FOREIGN MINISTER HUANG HUA, VICE PREMIER SO YIEN, AND VICE PREMIER GENG BIAO. I HEAR THAT THESE SESSIONS WENT VERY WELL.

HAYG: WE HAD EXTENSIVE DISCUSSIONS ON INTERNATIONAL, REGIONAL, AND BILATERAL ISSUES. OUR TALKS WERE HIGHLY SATISFACTORY, AND VERY CONSTRUCTIVE.

THAO: PERHAPS TODAY I MIGHT USE THE OPPORTUNITY TO OFFER YOUR EXCELLENCE ON DOMESTIC CONDITIONS HERE IN CHINA. HOWEVER, SINCE I RECENTLY WENT TO SOUTH ASIA, I WOULD LIKE TO COVER SEVERAL

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TELEGRAM**

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PAGE 04 051114 04202 01 OF 07 9304317

POINTS RELATED TO THOSE COUNTRIES.

MAY61 THAT WOULD BE VERY INTERESTING.

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PERHAPS
YOU ALREADY KNOW THAT WE WILL SOON HAVE THE
SIXTH PLENUM OF THE 11TH PARTY CENTRAL
COMMITTEE. THIS WILL BE A VERY IMPORTANT
SESSION. ON THAT OCCASION, AN IMPORTANT

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PAGE 01 HFIJIN 00202 02 OF 07 0304427
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TO SECRETARY WASHDC IMMEDIATE 3170

C O N F I D E N T I A L SECTION 2 OF 7 BEIJING 0200

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DOCUMENT ON CERTAIN HISTORICAL QUESTIONS
WILL BE ADOPTED, AND THERE WILL BE SOME
PERSONNEL CHANGES IN THE CENTRAL LEADER-
SHIP.

PERHAPS
YOU ALSO KNOW THAT IN 1945 THE PARTY CENTRAL
COMMITTEE ADOPTED A RESOLUTION ON SOME
IMPORTANT HISTORICAL QUESTIONS SINCE THE
ESTABLISHMENT OF THE PARTY. AT THAT TIME
OUR PARTY HAD A HISTORY OF 24 YEARS. THIS
DOCUMENT ENCOURAGED THE UNITY OF PARTY
MEMBERS, AND CONTRIBUTED TO THE STRENGTH
OF THE PARTY, WHICH ULTIMATELY ACHIEVED
THE GREAT NATIONAL VICTORY. THE RESOLUTION
TO BE ADOPTED AT THE SIXTH PLENUM WILL BE
A SUMMARY COVERING THE PERIOD FROM THE
FOUNDING OF OUR REPUBLIC TO THE PRESENT --
THAT IS, 30 YEARS. THIS DOCUMENT WILL
CERTAINLY EXPEDITE THE PROGRESS OF THE FOUR
MODERNIZATION EFFORT. PERHAPS YOU KNOW

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PAGE 09 051314 40202 02 OF 07 7374427

THAT SINCE 1977, AND ESPECIALLY SINCE 1979, WE HAVE DONE A LOT TO REVISE THE PATH WE HAVE TRAVERSED AND TO SUMMARIZE OUR EXPERIENCE AND THE LESSONS WE HAVE LEARNED. THE MAIN PURPOSE IS TO MAKE CLEAR THE DISTINCTION BETWEEN RIGHT AND WRONG, TO STICK TO THE RIGHT, AND TO CORRECT MISTAKES. THIS HAS BEEN A TREMENDOUS JOB, BUT IT IS NOW ALREADY FINISHED. AGAINST THIS BACKGROUND THE SIXTH PLANNING WILL BE HELD.

TALKING ABOUT LOOKING BACK ON HISTORY AND SUMMING UP OUR HISTORICAL EXPERIENCE, THE QUESTION IS ONE OF HOW ONE LOOKS AT OUR JOB OVER THE PAST 32 YEARS. DURING THIS PERIOD, WE HAVE MADE SOME MISTAKES, PARTICULARLY DURING THE CULTURAL REVOLUTION, WHICH AFFECTED THE ENTIRE NATION. BUT APART FROM THAT, WE HAVE MADE CONSIDERABLE PROGRESS. WE HAVE ESTABLISHED A SOCIALIST SYSTEM, AND WE HAVE LAUNCHED A MASSIVE ECONOMIC PROGRAM. WE HAVE CAPTURED OUT WATER FOR SERVING ON A LARGE SCALE IN THE COUNTRY. ONE MIGHT SAY THAT INDUSTRY HAS ALREADY ATTAINED A STEADY MAGNITUDE. THERE ARE AS MANY AS 400,000 INDUSTRIAL ENTERPRISES IN CHINA. THE VALUE OF FIVE ASSETS AND CIRCULATING CURRENCY OF THESE ENTERPRISES AMOUNTS TO 300 BILLION CHINESE YUAN. THERE ARE, OF COURSE, SOME SHORTCOMINGS SUCH AS FAULTS IN MANAGEMENT AND EFFICIENCY, WHICH IS NOT TOO HIGH.

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INCOMING
TELEGRAM

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PAGE 03 BFJIN AF202 02 OF 07 93P4427

BUT WE HAVE ACHIEVED A SIZEABLE BASIS FOR
DEVELOPMENT.

DURING THE LAST 32 YEARS THE CHINESE POPULATION HAS NEARLY DOUBLED. IN 1949 THERE WERE OVER 570 MILLION CHINESE. NOW WE HAVE NEARLY ONE BILLION. WE HAVE SUCCEEDED IN MEETING THE BASIC NEEDS OF OUR PEOPLE. NOW THEY HAVE ENOUGH TO EAT AND WEAR. HOWEVER, COMPARED TO THE DEVELOPED COUNTRIES AND TO THE MEDITERRANEAN INCOME AND RAPID GROWTH NATIONS, CHINA IS A POOR COUNTRY AND DEFINELY BACKWARD. BUT IT IS A VASTLY DIFFERENT COUNTRY THAN IT WAS 30 YEARS AGO. ONE OF THE MAJOR INDICATIONS OF CHANGE IS THAT THE AVERAGE LIFE EXPECTANCY IS NOW 64 YEARS OLD. AS YOU KNOW, LIFE EXPECTANCY REFLECTS THE LEVEL OF ECONOMIC AND SOCIAL DEVELOPMENT OF A COUNTRY. PARTICULARLY, I WOULD POINT OUT THAT IN THE LAST 30 OR MORE YEARS WE HAVE ACHIEVED SUCCESS IN A COUNTRY OF ONE BILLION, OF WHICH 800 MILLION ARE PEASANTS, AND IN A COUNTRY WHERE ECONOMIC BASE WAS EXTREMELY WEAK. FOR THE REST OF THE LAST THREE DECADES, CHINA FIGHTED ON WITH UNDER DIFFICULT CONDITIONS. THE BLOCKADE WE FACED REQUIRED US TO RELY ON OURSELVES IN CAPITAL FORMATION, TECHNOLOGICAL DEVELOPMENT, AND BRINGING OUT THE TALENTS OF OUR PEOPLE. OF COURSE, IN THE 1950S WHEN STALIN WAS ALIVE THE SOVIET UNION DID GIVE US SOME ASSISTANCE, BUT IT WAS NOT FREE; WE HAD TO PAY IT BACK. WHEN KHRUSHCHEV CAME TO POWER HE TOOK UP THE CONTRACTS, PULLED OUT THE TECHNICIANS, AND DEMANDED REPAYMENT. ALTHOUGH THIS,

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TELEGRAM**

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PAGE 04

REF ID: A6202 02 OF 07 9304427

CAUSED US GREAT TROUBLE, WE EVENTUALLY
GAVE EVERYTHING BACK.

I WOULD MENTION IN PARTICULAR THAT ONE-
THING OF THE LAST THREE DECADES -- THAT IS

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TO SECRETARY WASHDC IMMEDIATE 3170

C O N F I D E N T I A L SECTION 1 OF 7 BEIJING 0202

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TEN YEARS WE WERE WASTED BECAUSE OF
SO-CALLED CULTURAL REVOLUTION. LOOKING
BACK, WE CAN SEE EVEN MORE CLEARLY WHAT A
WASTED PERIOD THAT WAS. I HAVE STUDIED
THIS QUESTION AND FOUND THAT IT WAS PRECISELY
DURING THAT PERIOD THAT SOME OF THE LESS
DEVELOPED COUNTRIES ACHIEVED SUCH REMARK-
ABLE ECONOMIC PROGRESS. I HAVE COME INTO
CONTACT CONCERNING HOW TO LOOK AT THE LAST
30 YEARS. WE THINK THAT DESPITE BLUNDERS,
THE SUCCESSES WERE THE PREDOMINANT FEATURE.
THIS SHOWS THAT THE SOCIALIST SYSTEM CORRESPONDS
IN ACTUAL CONDITIONS IN CHINA. WE
HAVE BROUGHT INTO PLAY THE SUPERIORITY OF
THE SOCIALIST SYSTEM. EFFORTS MUST CONTINUE
TO BE MADE TO IMPROVE OUR SYSTEM. THERE
ARE SOME MAJOR FLAWS. THEY NEED TO BE
REFORMED. THERE ARE SOME POLICY MISTAKES
WHICH NEED TO BE CORRECTED.

THIS IS OUR GENERAL VIEW. ON THE ONE HAND,
WE SHOULD STICK TO THE SOCIALIST ROAD.
UNWIELDY MARXIST-LENINIST-MAO ZEDONG THOUGHT.

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PAGE 02 051114 04202 03 OF 07 7304007

EVERYONE THE DICTATORSHIP OF THE PROLETARIAT,
AND ANOTHER TO THE LEADERSHIP OF THE
COMMUNIST PARTY. BUT ON THE OTHER HAND,
REFORMS WILL HAVE TO BE CARRIED OUT STEP
BY STEP. WHAT HAS BEEN SAID STILL HOLDS
FOR A GENERATION. IN ASSESSING OUR PERFORMANCE
OVER THE PAST 30 YEARS, ONE SHOULD
NEITHER CONFIRM NOR NEGATE WHAT HAS BEEN DONE.
I.E., WE SHOULD NOT BECAUSE OF MISTAKES OR
GLIMPSES NEGATE OUR BASIC SOCIALIST SYSTEM
OR CHINA'S BASIC POLICIES. WE SHOULD STICK
TO THE FOUR PRINCIPLES WHILE MAKING EARNEST
EFFORTS TO PERFECT OUR SOCIALIST SYSTEM
AND OVERCOMING SHORTCOMINGS IN OUR POLITICAL
SYSTEM.

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INCOMING TELEGRAM

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PAGE 42

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NOTE: IF NO FOLLOW UP EVENTS WERE CLOSER, SINCE WE
DEBATED CHINA'S ECONOMIC HEALTH,
STABILITY, AND VITALITY AS A MATTER OF
CONCERN TO THE UNITED STATES AS WELL. IN
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PAGE 03 - 051114 - 04202 - 04 OF 07 - 2309277

MANY ASPECTS, AS MY DISCUSSIONS WITH VICE
PRESIDENT HO YEN VERTHAY CONFIRMED, WE
ARE RUNNING PARALLEL TRACKS EVEN THOUGH WE
ARE UNDER DIFFERENT SYSTEMS. I KNOW WE HAVE
BOTH LEARNED ONE OF THE BASIC LESSONS
OF ECONOMICS, WHETHER ONE SPEAKS OF 18TH
CENTURY ECONOMICS OR MARXIST ECONOMICS
THAT IS THAT NATIONS MUST NOT SPEND MORE THAN
THEY TAKE IN. THAT IS A FORMULA FOR MORTGAGE
IN THE FUTURE.

THAT: I HAVE HEARD THAT ACCORDING TO KEYNESIAN
ECONOMIC THEORY ONE CAN SPEND MORE THAN ONE
EARN.

WATG: THAT IS NOW A DIFFERENT THEORY IN THE UNITED
STATES. PRESIDENT REAGAN DOES NOT FOLLOW
ENTERMAN EITHER, BUT HE REMEMBERS
BASIC ECONOMICS FROM 42-46 YEARS AGO.
I THINK OUR OWN HOUSEHOLDS LIVE BY THE
FUNDAMENTAL ECONOMIC PRECEPTS WHICH NATIONS
MUST FOLLOW AS WELL. I HAD A LENGTHY DISCUS-
SION WITH DAVID ROCKEFELLER AFTER HIS
RECENT VISIT TO CHINA WITH THE TRI-LATERAL
COMMISSION. HE EXPRESSED GREAT INTEREST IN
CAPITAL FINANCING AND THOUGHT THAT HE AND
SOME OF HIS BANKING FRIENDS COULD OFFER SOME
CONSTRUCTIVE SUGGESTIONS. I DID GATHER
VERTHAY THAT PART OF YOUR REFORM
PROGRAM INVOLVES GREATER DECENTRALIZATION.
THAT INTERESTS ME BECAUSE WE ARE ALSO
SEEKING TO ACCOMPLISH THAT IN THE UNITED
STATES. WE HAVE ONE MAJOR CONTRADICTION
IN OUR OTHERWISE AUSTERE MISSION,
WHICH HAS BEEN REDUCED BY 75
BILLION DOLLARS THAT IS A DRASTIC 72

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PAGE 04

REF ID: A5202 - 04 OF 07 9305977

BILLION DOLLAR INCREASE IN OUR OFFENSE
SPENDING. WE HAVE FOUND THAT OVER THE LAST
20 YEARS OUR SOCIAL PROGRAMS GREW FROM 20
BILLION DURING THE ADMINISTRATION OF JOHN F. KENNEDY
IN 1960 TO NEARLY 300 BILLION LAST YEAR.
MANY OF THE PROGRAMS HAVE OUTLIVED THEIR
ORIGINAL PURPOSE, BUT THEY HAVE RETAINED

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PAGE 01 001114 40202 05 06 87 0303337
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FM AMEMBASSY BEIJING
TO SECRETARY WASHINGTON IMMEDIATE 3101

C O U N T E R P A R T I A L SECTION 5 OF 7 BEIJING 0092

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STADYS

MOVEMENT AND CONSTITUENCIES THEIR
OWN. HENCE, THEY CONTINUE TO GROW. WE
ARE PURSUING A BROAD BASED ECONOMIC REFORM
SOMEWHAT DIFFERENT FROM WHAT MRS. THATCHER
WENT IN THE UNITED KINGDOM THREE YEARS
AGO. SHE MADE THE MISTAKE OF TRYING TO
ISOLATE FUNCTIONAL AREAS OF AUSTERITY,
AND SHE WAS REPEATED ON EACH ISSUE BY THE
PARLIAMENT AND THE PEOPLE AND IS IN SOME
TROUBLE TODAY. FOR THAT REASON, WE ARE
TRYING TO PROCEED ON A BROAD FRONT IN AN
INTEGRATED MANNER TO GET THE BASIC
IMPROVEMENTS IN OUR ECONOMY WHICH WE MUST
HAVE.

MR. BREWSTER, I AM ANXIOUS TO HEAR ABOUT
YOUR TRAVELS. I BROUGHT VICE CHAIRMAN
DENG A LETTER FROM VICE PRESIDENT BUSH,
AND I HAVE BROUGHT YOU A LETTER FROM
PRESIDENT REAGAN. I HAVE ALSO BEEN ASKED
BY PRESIDENT REAGAN TO EXTEND TO YOU AN
INVITATION TO VISIT THE UNITED STATES AT
A MUTUALLY CONVENIENT DATE AT THE END

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INCOMING
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PAGE 09

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OF THIS YEAR OR THE BEGINNING OF NEXT YEAR.
WE WOULD BE HONORED TO RECEIVE YOU IF YOUR
SCHEDULE PERMITS. WE CAN WORK OUT THE
ARRANGEMENTS THROUGH DIPLOMATIC CHANNELS. I
KNOW THAT THE AMERICAN PEOPLE WOULD BE DELIGHTED
TO WELCOME YOU.

THAO: I WOULD LIKE TO EXPRESS THANKS FOR PRESIDENT
REAGAN'S LETTER AND FOR HIS INVITATION AS WELL.
BECAUSE I HAVE A VERY CROWDED SCHEDULE THIS
YEAR, PERHAPS I WILL NOT BE ABLE TO MAKE IT.
BUT I AM LOOKING FORWARD TO VISITING WITH
THE PRESIDENT AT A LATER DATE. SPECIFIC
DATES CAN BE WORKED OUT THROUGH DIPLOMATIC
CHANNELS. I WOULD LIKE TO TAKE THIS
OPPORTUNITY TO RENEW THE INVITATION TO
PRESIDENT REAGAN TO VISIT CHINA. THE
CHINESE GOVERNMENT HAS ALREADY EXTENDED
AN INVITATION. NOW, ON BEHALF OF YE JIANYING,
THE CHAIRMAN OF THE STANDING COMMITTEE OF
THE NATIONAL PEOPLE'S CONGRESS, AND THE
CHINESE GOVERNMENT, I WOULD LIKE TO REAFFIRM
THAT INVITATION TO PRESIDENT REAGAN TO
VISIT AT A CONVENIENT TIME. PLEASE ALSO
CONVEY MY REGARDS TO THE PRESIDENT.

WATSI: I SHALL BE HAPPY TO DO SO. I KNOW THE
PRESIDENT WILL WELCOME YOUR INVITATION AND
LOOKS FORWARD TO YOUR VISIT. I TELL YOU,
THE PRESIDENT HAS A VERY HEAVY SCHEDULE
AND HE HAS BEEN REMINDING BECAUSE OF THE RECENT
ATTEMPT ON HIS LIFE.

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PAGE 04

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23 JUN 62 05 56

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PAGE 01 4F1114 24202 06 05 07 9305417
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PAGE 43 — 11114 — 4292 — 96 OF 97 — 9395417

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PAGE 01
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INCOMING
TELEGRAM

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PAGE 02

051114 04202 17 OF 07 2305407

HATGI: WE ARE DRESSING FOR TIME AND MUST STOP. LET
ME MAKE ONE COMMENT ON PAKISTAN. YOU WILL
HAVE NOTED IN THE PRESS THE ANNOUNCEMENT
THAT MY UNDERSECRETARY FOR SECURITY ASSISTANCE,
JIM MURKIEY, HAS WORKED OUT A FRAMEWORK AND
THE DETAILS OF AN AGREEMENT FOR A MULTI-BILLION
DOLLAR ASSISTANCE PROGRAM FOR PAKISTAN. THIS
PUBLICITY ON THE ARRANGEMENT HAS COME UP MORE
LOUDLY THAN I WOULD HAVE WISHED THIS EARLY.

THAT: IS IT FOR ONLY 30 BILLION?

HATGI: OVER 30 BILLION. ONLY 3 BILLION OVER FIVE YEARS
IS A HIGH FIGURE, AND IS UNPRECEDENTED. THIS
REPRESENTS ROUGHLY THE SAME LEVEL OF AID AS
WE PROVIDE TO EGYPT. I WANTED TO ALERT YOU
TO TWO ASPECTS OF THIS. FIRST, THERE WILL
BE LOTS OF CONTROVERSY IN THE CONGRESS AS
VARIOUS MEMBERS ARGUE THAT THIS IS TOO
MUCH AND THAT IT HAS NOT BEEN CAREFULLY
COORDINATED. WE WILL WORK ON THIS PROGRAM.
SECOND, THE DANGER OF IMMEDIATE SOVIET
PRESSURES ON PAKISTAN MAY BE HIGHER THAN
EVER.

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INCOMING TELEGRAM

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PAGE 03

0F1J14 44202 47 OF 37 2303407

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THE MEETING CONCLUDED AT 5:10 P.M.
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PAGE 01

BEIJING

01 OF 07

[HEADER INFO]

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FOR ASSISTANT SECRETARY HOLDRIDGE

SUBJECT: SECRETARY HAIG'S JUNE 16, 1981 MEETING WITH PRC
PREMIER ZHAO ZIYANG

1. (C - ENTIRE TEXT)

2. THE FOLLOWING MEMCON OF THE SECRETARY'S MEETING WITH PRC PREMIER ZHAO ZIYANG AT 3:30 PM ON THURSDAY, JUNE 16, 1981 REQUIRES CLEARANCE BY THE SECRETARY, FOLLOWING WHICH IT SHOULD BE TRANSMITTED TO WASHINGTON WITH APPROPRIATE DISTRIBUTION CONTROLS.

3. PARTICIPANTS IN THE MEETING FOR THE U.S. WERE THE SECRETARY, ASSISTANT SECRETARY HOLDRIDGE, CHARGE D'AFFAIRES ROY, GENERAL WALTERS, MESSRS. LILLEY, ARMACOST AND GOLDBERG, AND MS. CHANGE, (INTERPRETER), FOR THE CHINESE SIDE: PREMIER ZHAO ZIYNG, VICE FOREIGN MINISTER ZHANG WEJIN, DIRECTOR HAN XU, DEPUTY DIRECTOR ZHU QIZHEN, DEPUTY DIRECTOR LI [ILLEGIBLE], DEPUTY DIRECTOR TANG LONGRIN, INTERPRETER YANG [ILLEGIBLE], AND THREE NOTETAKERS.

4. BEGIN TEXT:

HAIG: PREMIER ZHAO, IT IS A PRIVILEGE TO MEET YOU IN THIS LOVELY PLACE.

ZHAO: IT IS CALLED THE PURPLE VELVET PAVILION. WHEN PREMIER ZHOU ENLAI WAS WITH US, HE OFTEN MET FOREIGN GUESTS HERE. IN THE QYNG DYNASTY THIS WAS THE PLACE WHERE THE EMPEROR GAVE EXAMINATIONS TO SCHOLARS.

ZHANG WENJIN: TO MILITARY OFFICERS

HAIG: I HOPE I WON'T HAV THAT EXPERIENCE TODAY. I MIGHT GET LOW GRADE.

ZHAO: YOU HAVE BEEN HERE SEVERAL DAYS, AND THE WEATHER HAS BEEN VERY HOT.

HAIG: IT IS FORTUNATE THAT WHILE THE WEATHER IS HOT, IT IS DRY, NOT DAMP.

ZHAO: IT IS WARMER THAN WASHINGTON?

HAIG: SLIGHTLY, BUT NOT AS HUMID. WE WERE IN HONG KONG TWO DAYS AGO. THAT WAS VERY HUMID.

ZHAO: ONE GOOD THING ABOUT HONG KONG IS THE FACT THAT THEY HAVE NO MOSQUITOES. WE HAVE THEM HERE IN GREAT NUMBERS.

HAIG: I DIDN'T ACTUALLY NOTICE THEM.

ZHAO: IT IS NOT LIKE CANTON HERE; THERE, MOSQUITO NETS ARE NEEDED.

ZHAO: DURING THIS MORNING, YOU MET WITH VICE CHAIRMAN DENG. THAT WAS A VERY IMPORTANT SESSION WHICH WAS THE CLIMAX OF YOUR VISIT. YOU ALSO MET YESTERDAY AND THE DAY BEFORE WITH FOREIGN MINISTER HUANG HUA, VICE PREMIER BO YIBO, AND VICE PREMIER GENG BIAO; I HEAR THAT THESE SESSIONS WENT VERY WELL.

HAIG: WE HAD EXTENSIVE DISCUSSIONS ON INTERNATIONAL, REGIONAL, AND BILATERAL ISSUES. OUR TALKS WERE HIGHLY SATISFACTORY, AND VERY CONSTRUCTIVE.

ZHAO: PERHAPS TODAY I MIGHT USE THE OPPORTUNITY TO BRIEF YOUR EXCELLENCY ON DOMESTIC CONDITIONS HERE IN CHINA, MOREOVER, SINCE I RECENTLY WENT TO SOUTH ASIA, I WOULD LIKE TO COVER SEVERAL

PAGE 04

BEIJING

01 OF 07

POINTS RELATED TO THOSE COUNTRIES.

HAIG: THAT WOULD BE VERY INTERESTING.

ZHAO: [TWO LINES EXCISED]; PERHAPS
YOU ALREADY KNOW THAT WE WILL SOON HAVE THE
SIXTH PLENUM OF THE 11TH PARTY CENTRAL
COMMITTEE. THIS WILL BE A VERY IMPORTANT
SESSION, ON THAT OCCASION, AN IMPORTANT

[HEADER INFO]

DOCUMENT ON CERTAIN HISTORICAL QUESTIONS
WILL BE ADOPTED, AND THERE WILL BE SOME
PERSONNEL CHANGES IN THE CENTRAL LEADER-
SHIP. [FIVE LINES EXCISED] PERHAPS
YOU ALSO KNOW THAT IN 1945 THE PARTY CENTRAL
COMMITTEE ADOPTED A RESOLUTION ON SOME
IMPORTANT HISTORICAL QUESTIONS SINCE THE
ESTABLISHMENT OF THE PARTY. AT THAT TIME
OUR PARTY HAD A HISTORY OF 24 YEARS. THIS
DOCUMENT ENCOURAGED THE UNITY OF PARTY
MEMBERS, AND CONTRIBUTED TO THE STRENGTH
OF THE PARTY, WHICH ULTIMATELY ACHIEVED
THE GREAT NATIONAL VICTORY. THE RESOLUTION
TO BE ADOPTED AT THE SIXTH PLENUM WILL BE
A SUMMARY COVERING THE PERIOD FROM THE
FOUNDING OF OUR REPUBLIC TO THE PRESENT --
THAT IS, 32 YEARS. THIS DOCUMENT WILL
CERTAINLY EXPEDITE THE PROGRESS OF THE FOUR
MODERNIZATIONS EFFORT. PERHAPS YOU KNOW

THAT SINCE 1977, AND ESPECIALLY SINCE 1979, WE HAVE DONE A LOT TO REVIEW THE PATH WE HAVE TRAVERSED AND TO SUMMARIZE OUR EXPERIENCE AND THE LESSONS WE HAVE LEARNED. THE MAIN PURPOSE IS TO MAKE CLEAR THE DISTINCTION BETWEEN RIGHT AND WRONG, TO STICK TO THE RIGHT, AND TO CORRECT MISTAKES. THIS HAS BEEN A TREMENDOUS JOB, BUT IT IS NOW ALREADY FINISHED. AGAINST THIS BACKDROP THE SIXTH PLENUM WILL BE HELD.

TALKING ABOUT LOOKING BACK ON HISTORY AND SUMMING UP OUR HISTORICAL EXPERIENCE, THE QUESTIONS IS ONE OF HOW ONE LOOKS AT OUR JOB OVER THE PAST 32 YEARS. DURING THIS PERIOD, WE HAVE MADE SOME MISTAKES, PARTICULARLY DURING THE CULTURAL REVOLUTION, WHICH AFFECTED THE ENTIRE NATION. BUT APART FROM THAT, WE HAVE MADE CONSIDERABLE PROGRESS. WE HAVE ESTABLISHED A SOCIALIST SYSTEM, AND WE HAVE LAUNCHED A MASSIVE ECONOMIC PROGRAM. WE HAVE CARRIED OUT WATER CONSERVANCY ON A LARGE SCALE IN THE COUNTRY-SIDE. ONE MIGHT SAY THAT INDUSTRY HAS ALREADY ATTAINED A SIZEABLE MAGNITUDE. THERE ARE AS MANY AS 400,000 INDUSTRIAL ENTERPRISES IN CHINA. THE VALUE OF FIXED ASSETS AND CIRCULATING CURRENCY OF THESE ENTERPRISES AMOUNTS TO [ILLEGIBLE] BILLION CHINESE YUAN. THERE ARE, OF COURSE, SOME SHORTCOMINGS SUCH AS FAULTS IN MANAGEMENT AND EFFICIENCY, WHICH IS NOT TOO HIGH,

BUT WE HAVE ACHIEVED A SIZEABLE BASIS FOR DEVELOPMENT.

DURING THE LAST 32 YEARS THE CHINESE POPULATION HAS NEARLY DOUBLED. IN 1949 THERE WERE OVER 500 MILLION CHINESE. NOW WE HAVE NEARLY ONE BILLION. WE HAVE SUCCEEDED IN MEETING THE BASIC NEEDS OF OUR PEOPLE. NOW THEY HAVE ENOUGH TO EAT AND WEAR. HOWEVER, COMPARED TO THE DEVELOPED COUNTRIES AND TO THE MEDIAN INCOME AND RAPID GROWTH NATIONS, CHINA IS A POOR COUNTRY AND DECIDEDLY BACKWARD. BUT IT IS A VASTLY DIFFERENT COUNTRY THAN IT WAS 30 YEARS AGO. ONE OF THE MAJOR INDICATIONS OF CHANGE IS THAT THE AVERAGE LIFE EXPECTANCY IS NOW 64 YEARS OLD. AS YOU KNOW, LIFE EXPECTANCY REFLECTS THE LEVEL OF ECONOMIC AND SOCIAL DEVELOPMENT OF A COUNTRY. PARTICULARLY, I WOULD POINT OUT THAT IN THE LAST 30 OR MORE YEARS WE HAVE ACHIEVED SUCCESS IN A COUNTRY OF ONE BILLION, OF WHICH 800 MILLION ARE PEASANTS, AND IN A COUNTRY WHOSE ECONOMIC BASE WAS EXCEEDINGLY WEAK. FOR THE BETTER PART OF THE LAST THREE DECADES, CHINA CARRIED ON WORK UNDER DIFFICULT CONDITIONS. THE BLOCKADE WE FACED REQUIRED US TO RELY ON OURSELVES IN CAPITAL FORMATION, TECHNOLOGICAL DEVELOPMENT, AND BRINGING OUT THE TALENTS OF OUR PEOPLE. OF COURSE, IN THE 1950'S WHEN STALIN WAS ALIVE THE SOVIET UNION DID GIVE US SOME ASSISTANCE, BUT IT WAS NOT FREE; WE HAD TO PAY IT BACK. WHEN KRUSHCHEV CAME TO POWER HE TORE UP THE CONTRACTS, PULLED OUT THE TECHNICIANS, AND DEMANDED REPAYMENT. ALTHOUGH THIS

PAGE 04

BEIJING

02 OF 07

CAUSED US GREAT TROUBLE, WE EVENTUALLY
PAID EVERYTHING BACK

I WOULD MENTION IN PARTICULAR THAT ONE-
THIRD OF THE LAST THREE DECADES -- THAT IS

TEN YEARS -- WAS WASTED BECAUSE OF SO-CALLED CULTURAL REVOLUTION. BOOKING BACK, WE CAN SEE EVEN MORE CLEARLY WHAT A WASTED DECADE THAT WAS. I HAVE STUDIED THIS QUESTION AND FOUND THAT IT WAS PRECISELY DURING THAT DECADE THAT SOME OF THE LESS DEVELOPED COUNTRIES ACHIEVED SUCH REMARKABLE ECONOMIC PROGRESS. I HAVE GONE INTO DETAIL CONCERNING HOW TO LOOK AT THE LAST 32 YEARS. WE THINK THAT DESPITE BLUNDERS, THE SUCCESSES WERE THE PREDOMINANT FEATURE. THIS SHOWS THAT THE SOCIALIST SYSTEM CORRESPONDS TO ACTUAL CONDITIONS IN CHINA. WE HAVE BROUGHT INTO PLAY THE SUPERIORITY OF THE SOCIALISTS SYSTEM. EFFORTS MUST CONTINUE TO BE MADE TO IMPROVE OUR SYSTEM. THERE ARE SOME MAJOR FLAWS. THEY NEED TO BE REFORMED. THERE ARE SOME POLICY MISTAKES WHICH NEED TO BE CORRECTED.

THIS IS OUR GENERAL VIEW. ON THE ONE HAND, WE SHOULD STICK TO THE SOCIALIST ROAD, UPHOLD MARXISM-LENINISM-MAO ZEDONG THOUGHT,

EXERCISE THE DICTATORSHIP OF THE PROLETARIAT, AND ADHERE TO THE LEADERSHIP OF THE COMMUNIST PARTY. BUT ON THE OTHER HAND, REFORMS WILL HAVE TO BE CARRIED OUT STEP BY STEP. WHAT MAO ZEDONG SAID STILL WORKS FOR A GENERATION. IN ASSESSING OUR PERFORMANCE OVER THE PAST 32 YEARS, ONE SHOULD NEITHER CONFIRM NOR NEGATE WHAT HAS BEEN DONE, I.E., WE SHOULD NOT BECAUSE OF MISTAKES OR BLUNDERS NEGATE OUR BASIC SOCIALIST SYSTEM OR CHINA'S BASIC POLICIES. WE SHOULD STICK TO THE FOUR PRINCIPLES WHILE MAKING EARNEST EFFORTS TO PERFECT OUR SOCIALIST SYSTEM AND OVERCOMING SHORTCOMINGS IN OUR POLITICAL SYSTEM.

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PAGE 03 BEIJING

03 OF 07

[PAGE EXCISED]

[PAGE EXCISED]

PAGE 01 BEIJING 04 OF 07

[HEADER INFO]

[TEXT OF DOCUMENT ON PAGE EXCISED]

PAGE 02

BEIJING

04 OF 07

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HAIG: WE DO FOLLOW EVENTS HERE CLOSELY, SINCE WE
REGARD CHINA'S ECONOMIC HEALTH,
STABILITY, AND VITALITY AS A MATTER OF
CONCERN TO THE UNITED STATES AS WELL. IN

PAGE 03

BEIJING

04 OF 07

MANY RESPECTS, AS MY DISCUSSIONS WITH VICE PREMIER BO YIBO YESTERDAY CONFIRMED, WE ARE PURSUING PARALLEL TRACKS EVEN THOUGH WE ARE UNDER DIFFERENT SYSTEMS. I KNOW WE HAVE BOTH LEARNED ONE OF THE BASIC LESSONS OF ECONOMICS, WHETHER ONE SPEAKS OF 18TH CENTURY ECONOMICS OR MARXIST ECONOMICS: THAT IS THAT NATIONS MUST NOT SPEND MORE THAN THEY TAKE IN. THAT IS A FORMULA FOR MORTGAG- IN[G] THE FUTURE.

ZHAO: I HAVE HEARD THAT ACCORDING TO KEYNESIAN ECONOMIC THEORY ONE CAN SPEND MORE THAN ONE EARNS.

HAIG: THAT IS NOW A DEFUNCT THEORY IN THE UNITED STATES. PRESIDENT REAGAN DOES NOT FOLLOW FRIEDMAN EITHER, BUT HE REMEMBERS BASIC ECONOMICS FROM 40-50 YEARS AGO. I THINK OUR OWN HOUSEHOLDS LIVE BY THE FUNDAMENTAL ECONOMIC PRECEPTS WHICH NATIONS MUST FOLLOW AS WELL. I HAD A LENGTHY DISCUSSION WITH DAVID ROCKEFELLER AFTER HIS RECENT VISIT IN CHINA WITH THE TRILATERAL COMMISSION. HE EXPRESSED GREAT INTEREST IN CAPITAL FINANCING AND THOUGHT THAT HE AND SOME OF HIS RANKING FRIENDS COULD OFFER SOME CONSTRUCTIVE SUGGESTIONS. I DID GATHER YESTERDAY THAT PART OF YOUR REFORM PROGRAM INVOLVES GREATER DECENTRALIZATION. THAT INTERESTS ME BECAUSE WE ARE ALSO SEEKING TO ACCOMPLISH THAT IN THE UNITED STATES. WE HAE ONE MAJOR CONTRADICTION IN OUR OTHERWISE AUSTERE BUDGET, WHICH HAS BEEN REDUCED BY 50 [?] BILLION DOLLARS; THAT IS A DRAMATIC 32 [?]

BILLION DOLLAR INCREASE IN OUR DEFENSE
SPENDING. WE HAVE FOUND THAT OVER THE LAST
20 YEARS OUR SOCIAL PROGRAMS GREW FROM 29
BILLION DURING THE ADMINISTRATION OF JOHN KENNEDY
IN 1962 TO NEARLY 300 BILLION LAST YEAR.
MANY OF THE PROGRAMS HAE OUTLIVED THEIR
ORIGINAL PURPOSE, BUT THEY HAVE RETAINED

[HEADER INFO]

MOMENTUM AND CONSTITUENCIES THEIR OWN [SIC], HENCE, THEY CONTINUE TO GROW. WE ARE PURSUING A BROAD BASED ECONOMIC REFORM SOMEWHAT DIFFERENT FROM WHAT MRS. THATCHER TRIED IN THE UNITED KINGDOM THREE YEARS AGO. SHE MADE THE MISTAKE OF TRYING TO ISOLATE FUNCTIONAL AREAS OF AUSTERITY, AND SHE WAS DEFEATED ON EACH ISSUE BY THE PARLIAMENT AND THE PEOPLE AND IS IN SOME TROUBLE TODAY. FOR THAT REASON, WE ARE TRYING TO PROCEED ON A BROAD FRONT IN AN INTEGRATED MANNER TO GET THE BASIC IMPROVEMENTS IN OUR ECONOMY WHICH WE MUST HAVE.

MR. PREMIER, I AM ANXIOUS TO HEAR ABOUT YOUR TRAVELS. I BROUGHT VICE CHAIRMAN DENG LETTER FROM VICE PRESIDENT BUSH, AND I HAVE BROUGHT YOU A LETTER FROM PRESIDENT REAGAN. I HAVE ALSO BEEN ASKED BY PRESIDENT REAGAN TO EXTEND TO YOU AN INVITATION TO VISIT THE UNITED STATES AT A MUTUALLY CONVENIENT DATE AT THE END

OF THIS YEAR OR THE BEGINNING OF NEXT YEAR. WE WOULD BE HONORED TO RECEIVE YOU IF YOUR SCHEDULE PERMITS. WE CAN WORK OUT THE ARRANGEMENTS THROUGH DIPLOMATIC CHANNELS. I KNOW THAT THE AMERICAN PEOPLE WOULD BE DELIGHTED TO WELCOME YOU.

ZHAO: I WOULD LIKE TO EXPRESS THANKS FOR PRESIDENT REAGAN'S LETTER AND FOR HIS INVITATION AS WELL. BECAUSE I HAVE A VERY CROWD[ED] SCHEDULE THIS YEAR, PERHAPS I WILL NOT BE ABLE TO MAKE IT. BUT I AM LOOKING FORWARD TO VISITING WITH THE PRESIDENT AT A LATER DATE. SPECIFIC DATES CAN BE WORKED OUT THROUGH DIPLOMATIC CHANNELS. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO RENEW THE INVITATION TO PRESIDENT REAGAN TO VISIT CHINA. THE CHINESE GOVERNMENT HAS ALREADY EXTENDED AN INVITATION. NOW, ON BEHALF OF YE JIANYING, THE CHAIRMAN OF THE STANDING COMMITTEE OF THE NATIONAL PEOPLE'S CONGRESS, AND THE CHINESE GOVERNMENT, I WOULD LIKE TO REAFFIRM THAT INVITATION TO PRESIDENT REAGAN TO VISIT AT A CONVENIENT TIME. PLEASE ALSO CONVEY MY REGARDS TO THE PRESIDENT.

HAIG: I SHALL BE HAPPY TO DO SO. I KNOW THE PRESIDENT WILL WELCOME YOUR INVITATION AND LOOKS FORWARD TO YOUR VISIT. LIKE YOU, THE PRESIDENT HAS A VERY HEAVY SCHEDULE AND HE HAS FALLEN BEHIND BECAUSE OF THE RECENT ATTEMPT ON HIS LIFE.

PAGE 03

BEIJING

05 OF 07

ZHAO:

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PAGE 01

BELJING

06 OF 07

[HEADER INFO]

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PAGE 02

BEIJING

06 OF 07

[DOCUMENT TEXT ON PAGE EXCISED]

PAGE 03

BELJING

06 OF 07

[DOCUMENT TEXT ON PAGE EXCISED]

PAGE 01

BEIJING

07 OF 07

[HEADER INFO]

[DOCUMENT TEXT ON PAGE EXCISED]

PAGE 02

BEIJING

07 OF 07

[TWO LINES EXCISED]

HAIG: WE ARE PRESSED FOR TIME AND MUST STOP. LET ME MAKE ONE COMMENT ON PAKISTAN. YOU WILL HAVE NOTED IN THE PRESS THE ANNOUNCEMENT THAT MY UNDERSECRETARY FOR SECURITY ASSISTANCE, JIM BUCKLEY, HAS WORKED OUT A FRAMEWORK AND THE DETAILS OF AN AGREEMENT FOR A MULTI-BILLION DOLLAR ASSISTANCE PROGRAM FOR PAKISTAN. THIS PUBLICITY ON THE ARRANGEMENT HAS COME UP MORE LOUDLY THAN I WOULD HAVE WISHED THIS EARLY.

ZHAO: IS IT FOR DOLS 30 BILLIONG [SIC]?

HAIG: OVER DOLS 3 BILLION. DOLS 3 BILLION OVER FIVE YEARS IS A HIGH FIGURE, AND IS UNPRECEDENTED. THIS REPRESENTS ROUGHLY THE SAME LEVEL OF AID AS WE PROVIDE TO EGYPT. I WANTED TO ALERT YOU TO TWO ASPECTS OF THIS. FIRST, THERE WILL BE LOTS OF CONTROVERSY IN THE CONGRESS AS VARIOUS MEMBERS ARGUE THAT HIS IS TOO MUCH AND THAT IT HAS NOT BEEN CAREFULLY COORDINATED. WE WILL WORK ON THIS PROGRAM. SECOND, THE DANGER OF IMMEDIATE SOVIET PRESSURES ON PAKISTAN MAY BE HIGHER THAN EVER. [REMAINDER OF DOCUMENT TEXT ON PAGE EXCISED]

PAGE 03

BEIJING

07 OF 07

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THE MEETING CONCLUDED AT 5:00 P.M.
ROY